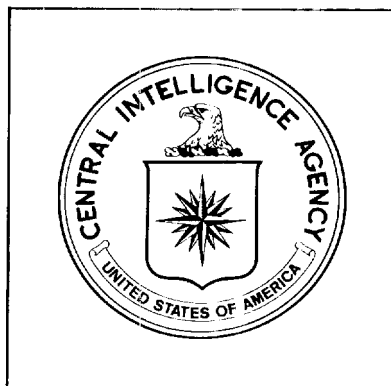


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Chinese Affairs

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SC No. 00433/75

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of E. O. 11652, exemption category:

§ 5B (1), (2), and (3)

Automatically declassified
on: Date Impossible to Determine

Approved For Release 2001/08/08 : CIA-RDP79T00865A001000230001-6

SOVIET UNION - EASTERN EUROPE

This publication is prepared for regional specialists in the Washington community by the USSR - Eastern Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Atmospherics: Waiting for the Other Shoe To Drop
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25X1A

Unity and stability have been the watchwords from Peking since early this year, but the Chinese people, accustomed to nine years of relative instability, keep looking for--and are finding--what they see as signs of continuing political uncertainties. Mao's prolonged absence from Peking, his still unannounced return, and Chou's long hospitalization have undoubtedly contributed to popular malaise. Moreover, the moderate tone of the current campaign to study the proletarian dictatorship continues to be interpreted by many Chinese as the calm before the storm.

Popular skepticism is perhaps best expressed in the apparently widespread rumor that Chou's hospitalization is actually the result of an assassination attempt. Officials in Canton, evidently sensing differences between Mao and Chou, claim that Mao has taken no action against the would-be assassin. Chou's followers allegedly believe Mao is either protecting the assassin or was himself behind the attempt. The Soviets have apparently picked up the assassination rumor and have referred to a recent attempt to poison Chou. Although there seems to be no basis in fact for such rumors, they pointedly illustrate Chinese doubts about--and perhaps disbelief in--the unity and stability theme.

Further reservations about Peking's official line surfaced in rumors about the demotion of military man Li Te-sheng from party vice chairman to ordinary member of the Politburo. The official explanation from Peking was that Li requested the demotion. Canton officials believe, however, that Li had a run-in with Vice Premier Chen Yung-kuei, a favorite of Mao's whom Li allegedly ousted from a meeting of political and military officials.

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Since his elevation to a vice premiership, one-time model peasant Chen has turned in a creditable performance, most notably on his recent trip to Mexico. He now seems a viable government leader rather than a token representative of the Chinese peasantry, but there are signs that he is not universally popular. Canton officials claim that military men other than Li dislike Chen because the vice premier is responsible for the unpopular policy of sending demobilized servicemen to work in the rural areas.

Another sign of possible opposition to Chen is the propaganda play given to the Hsiao-chin-chuang production brigade in a way that might be intended to steal the thunder from Chen's own Tachai model brigade. The Hsiao-chin-chuang brigade is associated with Chiang Ching, and it would be interesting if both the military and Chiang Ching dislike Chen. If true, this would be another sign that Madame Mao and the military have found common ground and would lend credence to the rumor that she and other leftists in Peking are behind the protests of demobilized servicemen.

Apart from rumors among local officials, there are some signs of cracks beneath the surface unity. A military man in NCNA, using a slogan attributed to Chiang Ching, reportedly attacked in wall posters the rehabilitated NCNA chief Chu Mu-chih as a "rightist." The military man, placed in NCNA during the Cultural Revolution, has reportedly since been transferred to another government organization and has not been publicly identified in his NCNA post since December 1973. Chu Mu-chih, on the other hand, continues to appear regularly and to be identified as chief of NCNA.

Although Peking apparently moved swiftly to defuse the situation and support Chu Mu-chih, the NCNA episode is symptomatic of the continuing resentment by both the leftists and the military against rehabilitated officials overthrown during

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the Cultural Revolution. This is a long-standing problem with no easy or quick solution, but Peking's ability to deal with it smoothly is a plus on the stability side.

Local officials are understandably dubious about the new emphasis on unity and stability, but they do seem to be overdramatizing the signs of continuing friction and underestimating Peking's determination to contain those differences. Moreover, their doubts make unity and stability more difficult to achieve, a situation that Vice Premier Teng Hsiao-ping seemed to address when he told the Central Committee last January that the government's priority task is to establish a good reputation for itself. Although Peking's emphasis on unity and stability seems genuine, it will apparently take some time before the government establishes the good reputation it needs. (SECRET NO FOREIGN DISSEM/CONTROLLED DISSEM)

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Cautious Rectification
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The proletarian dictatorship campaign seems to be moving toward the rectification phase that has been anticipated by many provincial cadre for weeks. On May 10, for the first time since the campaign began, a province--Kwangtung--openly called for rectification of its basic-level party units. In addition, an article in this month's *Red Flag* by Kiangsi first secretary Chiang Wei-ching--after reaffirming the campaign's moderate themes and rehashing its now familiar problems--seems to set out some guidelines for rectification work.

Chinese leaders--still anxious about the excesses of the anti-Confucius campaign--clearly intend to keep rectification work controlled and limited. Peking wants to tighten its control over the economy and increase cadre responsiveness to party directives, but without sparking further disruptions; a new political witch hunt is being avoided.

Moderation is the keynote. The Kwangtung article specifically admonishes cadre to carry out rectification work in a "planned and systematic" manner and counsels against precipitate action. Kwangtung apparently has entrusted local rectification work to special teams under the control of the provincial party committee, undoubtedly to maintain a tight rein. Chiang's article stresses education, not purges, as the true objective of the proletarian dictatorship campaign, intimating in the process that relatively few cadre are in danger of losing their jobs. He also warns cadre to be alert to the "handful of people who make trouble" to serve their own ends.

An effort is also being made to restrict the number of permissible targets. Kwangtung Province is clearly limiting its efforts to cadre at the

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county level and below. Chiang, too, is focusing on the activities of well-to-do peasants and basic-level cadre. Abuses at the provincial level, which are likely to be just as prevalent but have a far greater potential for political mayhem, seem to be carefully excluded. Perhaps to underline the necessity for caution in carrying out rectification, Chiang's article mentions in passing the need to exonerate individuals unfairly criticized in the past. Chiang speaks from experience, as he is a rehabilitated cadre.

Criticism will apparently focus on improper economic practices among the peasantry and petty corruption and abuses of authority by low level cadre. The Chiang article, in particular, lashes out at all individuals who ignore or subvert state production plans and party directives. Peasants are scored for their preoccupation with "cash crops" and the pursuit of private gain at the expense of the collective. Cadre are also taken to task for a variety of sins, including maladministration, influence peddling, and showing favoritism to friends and relatives. By and large, Peking seems determined to keep the larger question of political transgressions outside the scope of the campaign.

As the campaign takes up rectification, Peking is taking pains to repeat once again that moderate economic policies are not changing. In his article, Chiang specifically states that peasants may continue farming their private plots and participate in rural free markets as long as the "predominance of the collective economy" is assured. Moreover, Chiang asserts that these policies must continue for a long time because China needs "stability of policies"--a phrase taken from Teng Hsiao-ping's secret address to the Central Committee plenum last January.

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The rectification rhetoric is likely to exacerbate the factionalism in the more troubled provinces, despite Peking's efforts to keep the proletarian dictatorship campaign low keyed and controlled. According to Western press reports, rival groups in Chekiang are already using the campaign to attack one another. Most provinces, however, are likely to fare better. Almost all seem certain to handle rectification work with great caution and, indeed, Kwangtung is still the only province to speak openly on the subject. (CONFIDENTIAL NO FOREIGN DISSEM)

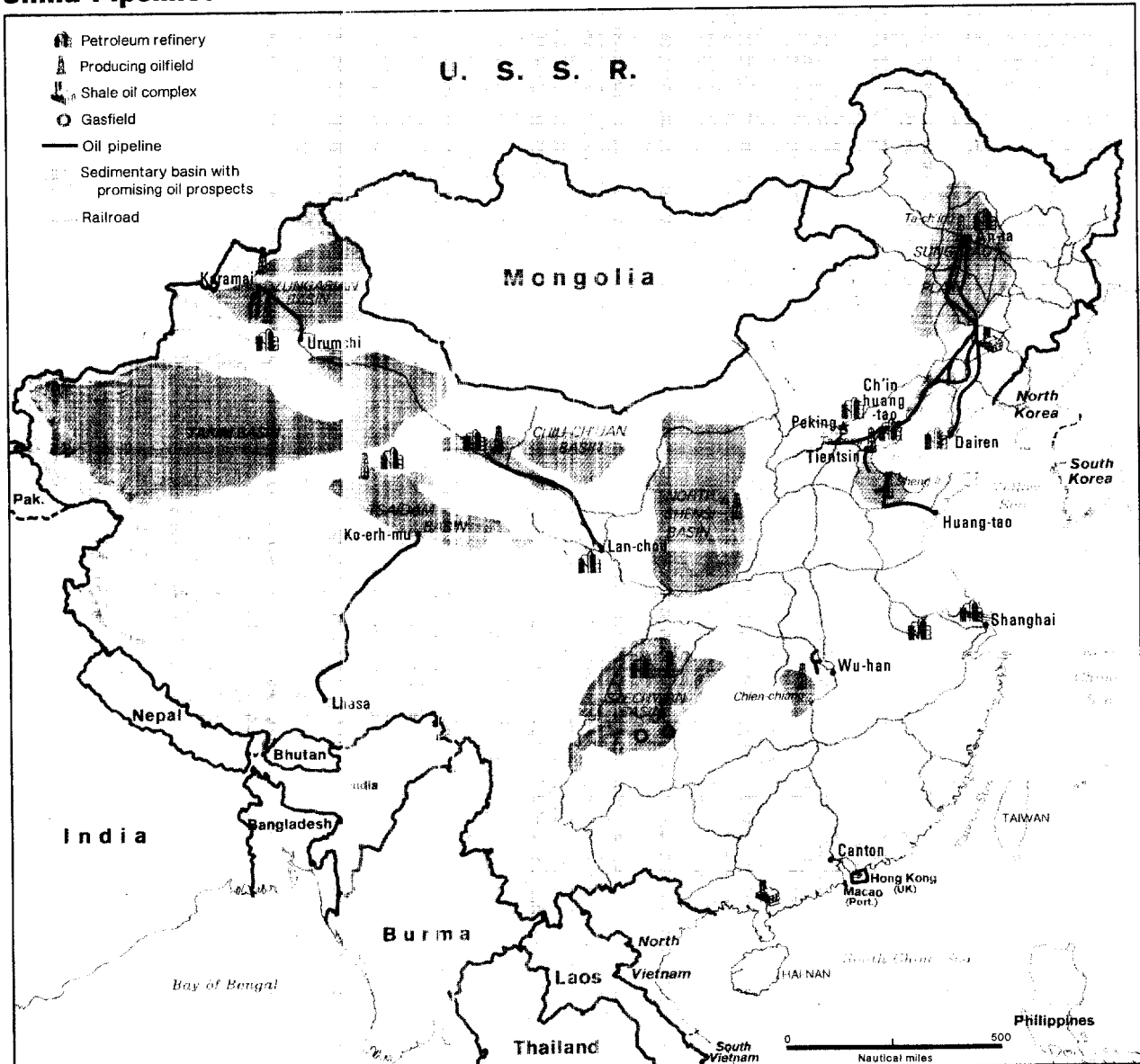
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New Pipelines

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China is involved in a multimillion dollar construction program to build pipelines to exploit its extensive petroleum resources. At its outset, the program was aimed mainly at overcoming limitations for transporting crude oil within China. The need to pay for rising imports and the sudden increase in world oil prices in 1973, however, led the Chinese to accelerate pipeline construction to take advantage of new export opportunities.

The sudden push in construction has increased the nation's pipeline network to more than 3,600 miles, five times the 700 miles that existed in 1970 when the program began. More than 1,500 miles were laid in 1974 alone.

After the world oil crisis in 1973, Peking shifted the direction of the program to support export-oriented activities. New pipelines were built to link the producing oil fields of the northeast and Manchuria to deep-water ports suitable for tankers used in the international oil trade. At the same time, oil ports were improved, and a major new port capable of handling supertankers is being built near Dairen.

The new pipelines and associated port improvements promise to make China a major crude oil exporter to the non-communist countries of Asia. Crude exports have grown from 1 million tons in 1973 to 4.5 million tons in 1974. The new pipelines will enable China to handle scheduled exports of 10 to 12 million tons this year and 20 million tons in 1977.

Crude oil earnings are now the single largest source of hard currency, and this source will grow over the next few years. If planned pipelines and

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port facilities are completed as expected, China will have the capability to export 50 million tons of crude oil by 1980. At current prices, exports on that scale would yield some \$4 billion dollars annually. (SECRET NO FOREIGN DISSEM)

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The Third World: Hints and Headaches
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China's enthusiasm for a number of Third World economic issues may be waning somewhat, judging from Vice Premier Teng Hsiao-ping's speech at the welcoming banquet for North Korean President Kim Il-song. This was an occasion when there seemed to be little need for Teng to raise Third World issues at all but, in contrast to recent speeches addressed to other visitors, the vice premier made a point of including this area in his review of the world situation. More curiously, having raised the issue, he bypassed mentioning the recently concluded UN Industrial Development Organization and the Law of the Sea conferences, as well as producer cartels--issues which continue to receive play in the Chinese press. Instead, the vice premier confined his treatment of the Third World to developments in southern Africa. This suggests that Peking is redefining its order of priorities with respect to Third World problems.

Teng's remarks on southern Africa were clearly intended to underscore Peking's consternation over the turn of events in that area during the past few months. The Chinese have been unhappy with a number of Zambian initiatives that began early this year. President Kaunda has been instrumental in pressuring the three black Rhodesian liberation groups, based in Zambia, to unite under the aegis of the African National Council (ANC) and enter into talks with the white minority government in Salisbury. Lusaka has also proceeded to make sure that the three guerrilla groups in the ANC could not individually continue their operations against Rhodesia.

These moves have not gone down well with the Chinese. Peking has backed the Zimbabwe African National Union (ZANU) since the 1960s, and at the time of the recent crackdown it seemed to be in

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the best position to wage an effective campaign against the Rhodesian government. ZANU's chief rival is the Zimbabwe African People's Union (ZAPU), which is backed by the Soviet Union.

From the time that Kaunda first began to take these initiatives, the Chinese did little to hide their feelings. NCNA began to stress the importance of armed struggle in southern Africa, while disparaging negotiations as a "political deception" fostered by Rhodesia and South Africa to split the ranks of the black nationalists. The Chinese have also used diplomatic channels to try to turn the Zambians around.

Sino-Zambian relations took a sharp turn for the worse last month when Peking lodged a strong protest over Lusaka's decision to close down all guerrilla training camps, including ZANU's. For their part, the Zambians are angered by China's position. Suspicions have also been raised and Kaunda reportedly has told his security services to monitor Chinese instructors currently training the Zambian army.

Peking obviously believes that the stakes are high enough to spend some of the political capital that it has accumulated over the years in Lusaka. The Chinese may calculate that Salisbury's days are numbered and whoever controls power there will enjoy a decisive role in shaping the future of southern Africa. As things now stand, with ZANU as part of the ANC, Peking's influence is necessarily diluted. To make matters worse, ZANU's role within the ANC has been eroded to the benefit of ZAPU since the merger. Moreover, the Chinese probably believe that opposition to South Africa is an emotional issue on which Peking can capitalize. Lusaka's willingness to work with Vorster cuts in the wrong direction, from China's point of view.

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At this point, the Chinese are probably hoping that their outspokenness will deter the Zambians from further undercutting ZANU. At best, Peking may look for a Zambian tilt in favor of ZANU as it jockeyes for influence within the ANC. Should the talks between Rhodesian Prime Minister Smith and the ANC break down completely, this, at least, would leave ZANU in a better position to rebuild than its rival, ZAPU. Thus far, however, Peking's criticism of Zambian policy has earned it little more than Kaunda's pique.

Peking's problem is to determine how far it can push Lusaka without jeopardizing, in any major way, the relationship it has cultivated there over the years. As yet there is no indication that Zambia is considering cutting back China's aid program in the country, but Kaunda is clearly unreceptive to Peking's criticism. The Chinese undoubtedly are carefully monitoring Kaunda's reaction to their protestations and probably expect they can avoid irreparable damage to their relationship with Zambia. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/CONTROLLED DISSEM)

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The Real Number Three

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Despite the protocol ranking of young Wang Hung-wen as the third man in the leadership, it has become increasingly clear that the man who follows Mao and Chou in terms of actual power is Teng Hsiao-ping. Following a shaky start after his rehabilitation two years ago, Teng has amassed a number of important positions, all of which he seems to be using with authority and confidence. In fact, he has come more than full circle since his ouster in 1966 at the pinnacle of his power. At that time, he was outranked by three men in relatively good health; today both Mao and Chou have some health problems, leaving Teng the man in charge of day-to-day affairs, with at least some authority to make decisions on his own.

Teng has moved effectively in both foreign affairs--his recent visit to France where he was accorded head-of-state treatment being a prime example--and in domestic politics, where he has had a hand in quelling political disturbances in the provinces. In the latter capacity, particularly in his reported personal intervention in the disturbances in Chekiang Province, Teng has bested Wang Hung-wen, who apparently was given initial responsibility for handling provincial disruptions.

At least some degree of calm has reportedly been restored to troubled Chekiang, and the credit appears to belong to Teng rather than to Wang. Local officials reportedly were critical of Wang's inability to resolve problems there last winter. Two reports indicate that Teng, in his capacity as army chief of staff, turned to the PLA to restore order. According to one account, Teng transferred a division of troops from Peking to Chekiang;

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another report claims he moved the 20th army, which remained loyal to the former Chekiang party boss and was therefore a major source of the problem, out of the province and moved a neutral army in from a neighboring province. In any case, Mao himself reportedly criticized Wang when he asked both men how to handle the Chekiang problem. After hearing their answers, Mao reportedly told Wang to learn from Teng Hsiao-ping's approach. Whether the story is true, it is another indication that local officials put more stock in Teng's abilities than in Wang's and that they believe this attitude is shared by the leadership in Peking.

The Chekiang "competition" between Wang and Teng does not mean that young Wang is in political trouble. It does indicate that he seems to need more seasoning before handling major problems, that Teng is the major problem-solver for now, and that he has won the confidence of national and local officials.

Teng's powerful positions, and his apparently successful use of them, have evidently transformed the man himself. His open display of affection for his youngest granddaughter upon his return to Peking from France--an uncharacteristic personal touch almost never shown by Chinese leaders--was a far cry from the diffident Teng who had to be led by the hand into the banquet hall in April 1973 for his first public appearance since the Cultural Revolution. (SECRET NO FOREIGN DISSEM/CONTROLLED DISSEM)

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Teng Establishes a Foothold in Europe
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Vice Premier Teng Hsiao-ping's visit to France in mid-May, along with China's new association with the European Community, has given Peking a useful foothold in Europe from which it hopes to encourage anti-Soviet policies.

Teng's visit appears to have resulted in considerably improved relations with France, virtually a return to a "special relationship." Relations had languished in recent years following President Pompidou's trip to China in late 1973, which exposed differences over Chinese hostility to Moscow and over French views on European cohesion.

The French received Teng warmly, giving him treatment that exceeded the requirements of protocol. President Giscard indicated that Teng's visit underscored the "exceptional quality" of French-Chinese relations. The Vice Premier responded that Chairman Mao himself is "greatly interested" in the development of relations.

The two sides agreed to hold periodic political consultations at the ministerial level, including regular sessions prior to UN General Assembly meetings and to increase trade and cultural exchanges. They also decided to set up a mixed economic commission, and Teng quickly consented to French requests for a change in Air France's routes over China. The French agreed to return visits to Peking by President Giscard, Prime Minister Chirac, and Foreign Minister Sauvagnargues.

Spokesmen from both sides indicated that they found more in common than either had realized. Both spoke out against "super power hegemony" and for the independence and maintenance of the "personality" of

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nations. Chirac noted "with satisfaction" China's support for European construction and solidarity, saying Teng's visit was a "positive element" for Europe. The two countries also agreed on the need for reorganization of energy and raw material markets and for new relationships between industrialized and Third World states.

The visit provided Peking a highly visible platform from which to affirm Chinese views on Europe, the Soviet threat, the international situation, and the post-Vietnam role of the US. NCNA gave heavy coverage to favorable comment regarding the visit by leading French spokesmen and the European press. Moscow, apparently concerned that Peking might successfully rally anti-Soviet forces in Europe, is engaged in a strong propaganda attack against Chinese diplomacy in Europe.

Peking clearly expects to use its foothold in Europe, particularly its periodic consultations with the French and its new accreditation with the EC in Brussels, for similar purposes in the future.

Perhaps with this in mind, Teng placed a more moderate cast on some Chinese views that have not been well received by the Europeans in the past. He played down the inevitability of war between the US and the USSR, claiming instead that "super power" rivalry over Europe would "one day" lead to war. Teng also expressed optimism, citing progress toward West European unity, which he said would stabilize the international situation. Teng stressed that China required a relatively placid international environment to develop its own economy, now in its infancy, and that Peking would prefer a peaceful and stable world.

Teng pulled no punches regarding the Soviets, and the intensity of his anti-Soviet views reportedly antagonized some French officials. He made it clear

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that, of the two "super powers," Moscow was by far the most threatening. He emphasized Moscow's ambitions in Europe, and told the French that Peking was not seriously concerned about Soviet attempts to encircle China. Teng said that Soviet policy in Asia was aimed at undermining the US position there, but he also used formulations which indicated Peking remains vigilant regarding the Soviet threat to China. He particularly attacked the European security conference, terming it a Soviet effort to dupe the Europeans; Peking is concerned that agreement on this issue could boost prospects for the long-standing Soviet proposal on collective security in Asia.

In contrast, Teng appeared optimistic about Washington's role in world affairs. He reasserted a view that has become more common in the wake of the Indochina war that the US had been overextended and now, freed from burdens in Indochina, could play a more active role in world affairs and concentrate on Europe and Japan. While he called in public for increased unity among European states, in private he told the French that European security depended in large part on close European solidarity with the US. Teng's strong comments on this score were reminiscent of the very positive line the Chinese took toward Washington in 1972-73. (CONFIDENTIAL NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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Merchant Fleet May Get US Radio Gear

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China is seeking US equipment to upgrade radio gear currently used by its international merchant fleet because of new requirements imposed by the International Telecommunications Union. The new regulation, enacted in early 1974, prohibits double-sideband radio equipment on international merchant ships after January 1, 1976; all ships must be equipped with single-sideband radio equipment by January 1, 1978.

China has already acquired some US-made single-sideband transceivers through its Hong Kong suppliers. Although the Chinese are capable of producing single-sideband equipment, they may not be able to meet the standards set by the International Telecommunications Union. Furthermore, the equipment produced in China for maritime use is limited in supply and consigned primarily to the Chinese navy.

If China decides to equip its entire international fleet of 300 ships with US equipment, a sizable market would be opened to American firms. Moreover, the Chinese have an active shipbuilding program and are continuing to purchase many used vessels from Japan and Western Europe. (CONFIDENTIAL)

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Military Notes

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Wu Hsiu-chuan, an old-line civilian cadre who was rehabilitated last July, along with former army chief of staff Yang Cheng-wu, was identified for the first time as a deputy chief of staff at a reception given by the Cameroon ambassador on May 20. Recent turnouts indicate Wu ranks lowest among the nine deputies.

Wu was the director of the party's International Liaison Department before he was purged in 1967. He seems to have political ties to both Chou En-lai and Teng Hsiao-ping. His appointment appears to be the latest in a series engineered by the moderates in Peking to place trusted civilians in key military posts as a check on the professional soldiers. (CONFIDENTIAL)

* * *

Some professional soldiers, however, seem to be doing quite well. Foochow Military Region commander Pi Ting-chun led a military friendship delegation to Sudan on May 19. He is the third military region commander to go abroad in a little over six months, but the first of the eight regional commanders rotated under a cloud a year and a half ago to do so. Moderates in the national leadership seem to be using more carrot and less stick on senior military men since the de facto end of the anti-Confucius campaign last year. Pi's trip is symptomatic of the renewed court being made some military men. (CONFIDENTIAL)

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Miki Trying To Break
Sino-Japanese Treaty Stalemate

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Japanese Prime Minister Miki has come up with a new "four-point" policy in an attempt to break the current logjam in negotiations for a peace and friendship treaty with Peking, but his move appears unlikely to satisfy the Chinese.

The main obstacle to agreement has been Peking's continuing insistence on a clause opposing "third-party hegemony" in Asia, an obvious slam at the USSR. The same phraseology was accepted by Prime Minister Tanaka in the 1972 Sino-Japanese joint communique announcing the establishment of diplomatic relations; it also appeared a few months earlier in the Sino-US "Shanghai communique."

Tokyo has been trying to avoid repeating the clause for fear of harming relations with the USSR. The Japanese have pressed for less specific language, to be included in the preamble rather than in the main body of the treaty, on the theory that its impact on the Russians could be diluted.

Miki's four points--which have apparently been conveyed to the Chinese as a sign of his "sincerity" in the matter--are essentially a reaffirmation of the 1972 communique and its relevance to the current negotiations. Miki's formulation also rejects the idea of suspending negotiations, as many Japanese leaders have suggested.

The Prime Minister's move comes shortly after the conclusion of a visit to Peking by leaders of the Japan Socialist Party, who were pressured by the Chinese not only to endorse the hegemony language of the

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1972 communique but to condemn the super powers--the USSR and the US--by name. The Socialists' capitulation, a tradeoff for Chinese statements supporting the Socialists' campaign to get US bases out of Japan, has complicated Tokyo's negotiating problem.

Tokyo is in a dilemma. The treaty itself is not immediately critical, at least in Tokyo's view, to further progress in Sino-Japanese relations, which are cordial. But Prime Minister Miki needs it in time for ratification during the current Diet session in order to improve his sagging domestic political position. The treaty is only one of six major items, including the Nuclear Non-Proliferation Treaty, Miki failed to push through the Diet during its regular session, which expired on May 25, forcing Miki to obtain a 40-day extension.

Foreign Minister Miyazawa and many of his top aides are concerned that Peking will be able to take advantage of Miki's political problems to win total acceptance of China's position on the hegemony issue. They are urging caution, using the argument that party hawks--anti-Peking and right-wing elements--may be able to block any treaty containing strong anti-hegemony language resulting in damage to Miki personally.

For their part, the Chinese in the past several weeks have been claiming that the treaty cannot be signed unless the anti-hegemony clause is included in the body of the treaty. Not long before the Socialist delegation's visit, Chinese Foreign Minister Chiao Kuan-hua had told Japanese officials that China was willing to wait "five to ten years" to conclude a treaty if this is what was necessary to have an anti-hegemony clause included. Other Chinese officials have also said privately that it would be better to have no treaty than one without this clause in the

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body of the document. Moreover, Chinese leaders have begun to talk publicly about the treaty. Liao Cheng-chih recently hinted that deletion of the clause would be a step backward from the 1972 Sino-Japanese communique, while Vice Premier Li Hsien-nien has specifically rejected the idea of putting the hegemony clause in the treaty's preamble.

This somewhat firmer bargaining posture stands in contrast with how the Chinese were behaving in late February at the time of the preceding round of talks.

25X1C [REDACTED] a Chinese official predicted to a confidant that Peking would ultimately agree to the Japanese demand for the elimination of the hegemony clause. He said that this would be preferable to having the negotiations become deadlocked and ratification postponed indefinitely. In fact, in the late autumn and early winter in the first stages of the negotiations, Peking showed enormous cordiality toward the Japanese and seemed determined to have the treaty negotiated and signed as quickly as possible.

In light of Peking's previous flexibility on the issue, the shift to a firmer line is probably, in part, a bargaining ploy to draw the Japanese closer to the Chinese position. China has previously used similar tactics in negotiating with Tokyo. At the outset of the civil aviation talks in 1973-74, China conveyed the impression that the issue would be easily resolved, but hardened its position as the talks progressed. A compromise agreement, favorable to the Chinese, was ultimately achieved.

In fact, the Chinese still have an incentive to conclude a peace and friendship treaty before the Japanese Diet finally recesses around July 1. Peking has always been concerned about the durability of Miki's China policy and the influence of pro-Taiwan elements within the Liberal Democrat Party. A treaty, of course, would make it considerably more difficult for

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Miki or any successor to turn Sino-Japanese relations from their current course. The Chinese also have considerable incentive to insist that "anti-hegemony" language appear in the treaty. Peking sees this as an opportunity to drive a wedge between Japan and the Soviets, putting another obstacle in the path of Soviet-Japanese cooperation.

The Soviet factor, in fact, probably has played a part in determining Peking's bargaining tactics in the negotiations. The Soviet embassy in Tokyo has campaigned vigorously against the anti-hegemony clause, and this action has undoubtedly reinforced Chinese determination that the clause be retained. While the conservative Japanese politicians who have been arguing against the anti-hegemony language are more interested in maintaining some distance from China than they are in relations with Moscow, their argument that the clause would jeopardize Japanese relations with the USSR is bound to raise Chinese hackles.

Moreover, the Chinese have almost certainly accorded higher priority to inclusion of the clause as a result of recent developments in Indochina. Peking seems genuinely to believe that the Soviet Union's position in Asia has been strengthened by Hanoi's victory and therefore probably feels that the inclusion of the anti-hegemony language is imperative to prevent erosion of China's equities in the region. In particular, Peking apparently believes that Moscow will revive its long-dormant proposal for an Asian security pact in the wake of the new situation in Indochina, and it may see the clause as an initial means of arresting any Soviet move in this direction.

In light of these considerations, Miki's latest initiative is not likely to cause the Chinese to back away significantly from their current position. In fact, the Japanese foreign office fears, with some

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justification, that Peking may now feel that the current has again begun to flow in its direction. This does not mean, however, that at least some compromise is out of the question. There is probably some flexibility in the Chinese position, particularly on whether the anti-hegemony language appears in the body of the treaty or in the preamble. Peking may well believe that a compromise permitting the Japanese to "save face" by relegating the clause to the preamble would mitigate some of Miki's present political problems; such a compromise would give China all of the advantages--albeit slightly diluted--of having the clause in the body of the treaty.

Much is likely to depend on Chinese readings of the Japanese political situation, which was accurate last year when the aviation treaty was negotiated, but which may not be so acute in present circumstances. In any event, the Chinese are constrained by their underlying concerns and to some degree by their bargaining position. In these circumstances, extensive watering down of the anti-hegemony language in a way that would obscure the essentially anti-Soviet nature of the clause--a ploy that the Japanese have considered--is probably out of the question for the Chinese. But if Peking is indeed willing to settle for treatment of the issue in the preamble to the treaty, there is at least an even chance of concluding the negotiations in time for introduction of the treaty into the Diet this summer. (CONFIDENTIAL NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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